

## **Luis M Linde: Recent economic developments in the euro area and in Spain, and important financial system projects**

Address by Mr Luis M Linde, Governor of the Bank of Spain, at the Annual Conference 2013 of the Asociación de Mercados Financieros, Madrid, 25 November 2013.

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Let me first thank the Asociación de Mercados Financieros, and its Chairman, my good friend Enrique Prados, for kindly inviting me to accompany you today in this Annual Conference. The Association – which draws together a large number of financial market professionals – performs important work in channeling initiatives aimed at contributing to the better working of those markets. Their active collaboration with regulators in devising rules, their participation in public consultations and their educational role are all to be welcomed.

My address today will be brief, so as not to outstay my welcome and encroach on your first course. It shall focus on three projects of particular importance for our financial system in the area of market infrastructures. But allow me first to comment on recent economic developments in the euro area and in Spain, developments that point, as we know, to a turn for the better.

To the euro area first. After six consecutive quarters of contraction, second-quarter GDP in the area this year posted positive growth of 0.3% in quarter-on-quarter terms; in the third quarter it has held at a positive rate, albeit one of only 0.1%. The recovery thus seems to be holding, but it should be acknowledged that expectations for economic growth in the area continue to be very moderate in the short and medium term.

The ECB continues with an expansionary policy stance. We have reached an all-time low in the interest rates on the main refinancing operations, now at 0.25%; since July, a forward guidance policy has been pursued, conveying to economic agents the ECB's decision to keep interest rates low for a prolonged period and to maintain generous liquidity provision.

Maintaining and stepping up this expansionary monetary policy has naturally had to do with the recent course of inflation, proxied by the consumer price index, which stood in October at 0.7% for the euro area as a whole, a rate substantially off the target of 2%.

Against this background, the first signs of the start of a recovery in the Spanish economy have begun to emerge.

As you know, in the third quarter of this year Spain posted its first positive quarter-on-quarter rate of change in GDP since mid-2011.

In the past two quarters, consumer spending has shown signs of stabilising, and even of picking up slightly. This positive trend should continue over the coming year, although the need for households to carry on reducing their debt will probably check the expansionary behaviour of this demand component.

Turning to the external sector, which remains our main source of growth, the adjustment of relative costs and prices under way in the Spanish economy, and the subsequent improvements in competitiveness, is allowing sales abroad to grow at a higher rate than that of the markets to which we export. Even if there is a rise in imports in the remainder of the year, this will provide for a strong correction of the current account balance, which will run a significant surplus this year of around 2% of GDP.

In addition to achieving this improvement in competitiveness, households, firms and financial institutions are deleveraging and the Spanish economy is undertaking major reforms, furthering the fiscal consolidation drive, which must in any case continue through to 2015 but which will evidently prove easier if the recovery firms.

Before moving to the second part of my address, and to conclude my comments on developments in activity, I should like to refer to the 2012 results of our Central Balance Sheet Data Office, and its preliminary results for 2013, which have been published this morning.

The 2012 figures illustrate the severity of the crisis that year. In 2012, Gross Value Added fell 4.5%, 3 pp more than in 2011, and the Net Profit for the year was practically zero.

For 2013, however, the estimate provided by the quarterly information from the Central Balance Sheet Data Office points to a turnaround in activity and in business profits.

In the first nine months of the year, the fall in Gross Value Added has eased across virtually all the productive sectors, with the principal exception of energy. Leaving this sector aside, Gross Value Added is expected to have declined by 2.2%, thereby breaking the trend towards increasingly bigger contractions in this aggregate.

This turnaround in Gross Value Added is closely related to the momentum of exports and reflects the fact that sales abroad, and, especially, those targeted on countries outside the European Union, have increased their relative weight in net turnover. On the figures to September, Net Profit rose to account for almost 12% of the sector's Gross Value Added.

In short, the Central Balance Sheet Data Office results published today corroborate the turnaround in the Spanish economy suggested by other macroeconomic indicators, although they also confirm that the momentum of expansion is still weak; accordingly, we must persevere with the reforms and policies that have enhanced our competitiveness, the main engine of the improvement witnessed these past months.

I shall now very briefly comment on three important projects for our financial system.

The first is part of the process of reform of securities clearance, settlement and registration in Spain. I refer to the introduction of a central counterparty (CCP) for stock market operations.

The use of an entity of this type has been habitual in the derivatives markets and also, more recently, in bond markets. With the extension of this service to equity operations, a market segment that had hitherto remained on the fringes and set us apart from more developed markets has been covered.

Through its intercession in each operation, acting as a buyer against the seller and a seller against the buyer, the CCP considerably facilitates the management of counterparty risk. This centralising function, which has a major bearing on post-trade operating arrangements, will be subject to most stringent regulatory requirements, in line with European legislation.

Other objectives it pursues are to provide the Spanish securities market with the tools to compete on an equal footing and with the same resources as other European markets. It is scheduled to come on stream in October 2015.

On the European front I should like to mention the "TARGET2-Securities" project. As you know, this project takes its name from the European payments system that came into being with the Monetary Union, and its aim is to use the TARGET 2 system for the settlement of securities operations using the accounts held by banks at central banks.

Despite the ongoing development of post-trade infrastructure in Europe, an excessive level of fragmentation remains. TARGET2-Securities will considerably reduce this fragmentation, allowing cross-border securities settlement to be equated to domestic settlement in terms of costs, efficiency and safety. Moreover, it will reduce institutions' collateral and liquidity requirements.

TARGET2-Securities is the most ambitious European securities market integration project undertaken to date. It will commence operating in June 2015, when the first migration wave takes place. So far, 24 European central securities depositories, accounting for practically all euro area markets, have committed themselves to taking part.

The second European initiative I would like to mention is SEPA, the Single Euro Payments Area.

The goal of the SEPA Project is to make electronic payments as easy, convenient and straightforward for the residents of any euro area member country to carry out as are their cash payments in other countries in the union. The initial aim is to eliminate the differences between making a national payment and a cross-border one, although the benefits extend also to payments made in the national arena. What is involved is a further step in the ongoing integration of financial services in Europe.

To achieve this, we must adapt to a new set of rules and uniform standards in Europe. But we have very little time remaining: Community legislation envisages SEPA being in place as from 1 February next year.

It is a far-reaching project, necessitating changes in the relationship between payment-services users and providers. That involves efforts and investment on the part of financial institutions, but also affects users, irrespective of their size.

It is important that banks should strive to make the transition by their customers easier. In this connection, communications and advice to customers must be stepped up, informing them of the new circumstances ahead and offering them the necessary support in their migration to the new payments scenario.

Our Eurosystem central banks are firmly committed to SEPA, among other reasons because we believe it will contribute to shoring up confidence in the single currency, by helping lift obstacles and promoting competition.

And now I hope you all enjoy your meal. I believe there will be a round of questions – easy ones I trust – after dessert.

Thank you.